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# SELECTED TRANSLATIONS OF EAST EUROPEAN FOREIGN TRADE (4)







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# SELECTED TRANSLATIONS ON EAST EUROPEAN FOREIGN TRADE (4)

## INTRODUCTION

This is a serial publication containing selected translations on Eastern European foreign trade policy, organization and planning, technical and economic cooperation, CEMA activities, economic assistance and penetration commodity trade, balance of payments, and international financial relations.

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EAST GERMANY

# SOCIALIST RECONSTRUCTION OF INDUSTRY AND INTERNATIONAL ECONOMIC RELATIONS

/Following is the translation of a book review by U. Nitzsche in Der Aussenhandel (Foreign Trade), Volume 1961, No 11, Berlin, pages 32-33./

Sozialistische Weltwirschaft (Socialist World Economy) Series, Volume 3, published by Die Wirtschaft, Berlin 1960.

The authors take socialist international cooperation as their point of departure and treat the reconstruction of industry as one of the most important measures for the development of productive forces and the strengthening of our socialist production relations.

The work is based on investigations in plants, institutions, VVB and foreign trade enterprises of the industrial branches of textile machine construction and tool-making machine construction in October-November 1959. The authors, while uncovering negative phenomena and showing ways for their elimination, have set for themselves the goal of supporting the present party, State, and economic authorities in their work. They emphasize "that the existing faults and shortcomings in the utilization of advantages in the socialist international division of labor in connection with the socialist reconstruction of industry in the GDR and foreign trade are basically of a subjective nature" (page 8).

The work deals with three categories of problems:

1. The struggle for scientific and technological maximum standards and the co-determination of world standards;
2. The unity of the socialist reconstruction of industry in the GDR and the socialist international division of labor;
3. The relations between the socialist reconstruction of industry and the foreign trade of the GDR.

The center of attention is in the political, economic, and organizational problems which result from the multilateral, mutual relations between the reconstruction of industry in GDR and the socialist international division of labor.

## World Standard and Scientific and Technological Maximum Standard

In the first chapter, the authors address themselves to the different interpretations of terms which frequently appear in economic literature ("scientific and technological maximum standard," "world standard," "world level") and are attempting to define clearly these terms.

They differentiate between the world standard which is "an

international comparison of one product with the identical or similar products of other countries," and the scientific and technological maximum standard which is "an objective yardstick for the maximum utilization of the latest knowledge in natural sciences and technology."

The definition of the world standard appears somewhat unfortunate, because the world standard in itself represents a definite scientific and technological level which has been attained in its production level by one or several highly industrialized countries, and which only by international comparison becomes apparent. The world standard itself is no comparison.

Of greater practical significance is the indisputable statement of the authors that both the scientific and technological maximum standard and the world standard have to be judged both by their relation to an individual product and by production processes. Later on, this idea is logically expanded to include the demand for products of high quality at declining or stable prices.

The pamphlet conclusively opposes in our plants the frequent tendency to raise the price on a machine on which insignificant improvements have been made because such a machine is in demand. It is regretable that the authors do not pay more attention to the interesting connection between the struggle to scientific and technological maximum standards in relation to the flow of production and reconstruction of our industry.

The conclusions that deal with the reciprocal effects between the scientific and technological maximum standards and world standards prove, among other things, that the tendency of big monopolies to slow down scientific and technological progress in the capitalist countries strongly affects the world standard. Thus, an orientation is certainly being given to our economists in practical life concerning the attainment of a scientific and technological maximum standard.

The authors direct their attention to the unity of political, economic, and engineering problems. They demand the establishment of economic and engineering unity as the basis for the elimination of defective constructions. Thus the new constructions could not be put into production if they were developed independently of our economic requirements. However, this touches upon only one side of the problems relating to our new constructions. The other side consists in shortening the road from research to production.

These points of view are logically followed by the considerations about the socialist work communities and the part they will take in the struggle for a scientific and technological maximum standard.

In the last section of the first chapter is illustrated how, in the struggle for a scientific and technological maximum standard, the pace can be accelerated through socialist scientific and technological cooperation on an international scale, and concentrated research in the international socialist work communities.

The ideas expressed in the first chapter are of great significance for our economic practice as can be seen in the statement made by Ing H. Grosse, deputy chairman of the State Planning Commission, to the

effect that comparatively few plants have chosen the world standards as their point of departure for the "New Technique" plan.

(/Note:/ The "New Technique" plan as a means of attaining scientific and technological maximum standards -- Press-Information No 142/1960, 14 December 1960.)

Socialist Reconstruction of Industry and Socialist International Division of Labor

In the second part of the work the authors, in discussing the connection between the reconstruction of the industry in the GDR and the socialist international division of labor, confine themselves to the problem of specialization as a part of reconstruction. Unfortunately, the questions which are related to the organization of production and the introduction of the new equipment (mechanization and automation) are not mentioned. The influence of these problems on the increase of labor productivity is of decisive importance for price improvement of products, which improvement the authors favor. This, obviously, follows from the fact that they, as already mentioned above, pay little attention to the other side of the technological and scientific maximum standard — the production process — although they realize the importance of such standards.

In the first two sections of this chapter they go first into still existing insufficiencies and delays in carrying out the recommendations of the Council and show how, by not considering the reommendations of the Council for Mutual Economic Assistance relating to specialization, the useful effects of reconstruction in our industry can be impaired. The example given on page 31 cannot, of course, remain unanswered. The satisfaction of the needs of specialized production among the socialist countries does not depend upon the allotment of foreign exchange. The specialized allotments in the foreign trade plan are considered on the basis of the export and import structure, which is the result of specialization.

The third section impressively depicts the necessity for including the working people in working out reconstruction plans for the preparation of socialist international specialization in production. It demonstrates that at the present moment the execution of the socialist international division of labor can be impaired if these preparations are made almost exclusively by the State Planning Commission. In the resolution of the State Planning Commission dated 17 February 1960 on the preparation and execution of international economic, technological and scientific cooperation, basic conditions have been created that make it possible to overcome the lack of independence and responsibility of the VVB, which in this connection, manifested itself in former projects.

In subsequent observations, the authors address themselves to the prevalent opinion that international specialization leads to an increasing number of types in the GDR. They give the reasons for the tendency of the number of types, and demonstrate that during the process of international specialization a reduction in the number of types takes

place although, at the beginning of this development, it is entirely possible that an increase in the number of types still counteracts this line of development. These possibilities are great as long as international specialization does not comprise the whole of industry or all its departments. The authors make it clear that the reconstruction plans would have to safeguard the reduction in the number of types.

In the fifth section of the second chapter are illustrated the advantages following from direct cooperation among the individual plants of the socialist countries. The plants are advised to show still greater activity in this respect.

An important problem relating to political economy is dealt with in section 6, namely, the direction which should be followed in the international specialization, specialization according to the individual products, or specialization according to the production programs?

This is a problem that needs broad and intensive discussion since it is very important to the question of the complex development of national economies with international specialization being effected at the same time.

Brief observations about the part played by foreign trade during the development of international specialization conclude the chapter, and lead to the third category of problems.

Reconstruction and Foreign Trade

The last chapter shows the role that foreign trade plays in the fulfillment of the Seven-Year Plan during the process of reconstruction. Particular emphasis is put upon the relations between reconstruction and development of export structure. The authors demand a number of times that the export structure be adjusted to the requirements of specialization and cooperation in GDR. This leads to a somewhat one-sided representation of the relations between export structure and reconstruction, because, taken from the opposite view, the development of export structure also exercises a considerable influence on the reconstruction of our industry. This general impression is not removed even by the concluding remarks of the first section which read as follows, "Even though foreign trade has no right to oppose the fundamental line of the socialist reconstruction of industry, reconstruction measures in their turn must not prevent the realization of certain principles of foreign trade policy."

The nature of the reciprocal effect between the structure of foreign trade and the reconstruction of industry would appear still more distinctly if the authors had described the problems facing imports. An examination of the relations between the import structure and reconstruction in view of the socialist international division of labor is quite necessary now, because our political economy is facing a decisive task: render any disruptive activity from West Germany ineffectual. It would be desirable, if this important problem of our practical economy would be discussed, in another work on the theme of socialist reconstruction of industry and international economic relations.

In subsequent observations, the authors consider a series of tasks which the foreign trade must solve to support the reconstruction of industry, and then discuss a number of problems that can be solved only through good cooperation between foreign trade and production.

The pamphlet deals in specific detail with the immediate influence which specialization of production exercises on the revenue from foreign trade.

The great merit of the authors is that they show the tasks of production in increasing the revenue from foreign trade by explaining important relations in political economy. This is all the more valuable because in our plants there is often an unfortunate lack of interest and responsibility in the export of their products. Also, many possibilities that are available to foreign trade are mentioned in order to give effective assistance to industry in the attainment of the scientific and technological maximum standard.

In the last section, the problems that arise from the reciprocal effect between production and foreign trade in the course of socialist reconstruction are considered. First of all, there are the concrete questions relating to improvement of common efforts in specialization. Many good proposals for the improvement of ideological and organizational work in foreign trade and industry were submitted on the basis of the experiences that had been had during the investigations of the industrial branches' construction of textile machines and construction of toolmaking machines. Within this framework, a challenge is made to foreign trade to give industry the market outlets for its reconstruction plans. In this connection, an incomplete analysis of market development as affected by foreign trade was subjected to criticism.

These observations would have been more valuable still, if the question of the programs for buying and selling countries had been included. These programs, specifically, do not permit any separation between the technological and economic requirements of production from the perspective of market outlets.

A somewhat one-sided representation of the relations between foreign trade and reconstruction is characteristic of the observations in the entire third chapter. Consequently, the problems which arise in this connection in trade with capitalist countries and democratic national states are hardly touched upon. This gives the impression that the ultimate effects of reconstruction on foreign trade with these countries will not create problems, which, of course, is not the case. Criticism of this work in no way diminishes the merit which the authors have earned by publishing this highly topical pamphlet.

EAST GERMANY

## RICH FRUIT OF INTERNATIONAL COOPERATION IN THE FIELD OF BUILDING

[Following is the translation of an article by Staatssekretar Gerhard Kosel, Chairman of the Permanent Commission for Building of the Council for Mutual Economic Assistance, in Die Wirtschaft (The Economy), Vol XVI, No 18, Berlin, 3 May 1961, page 8.]

The Sixth Conference of the Permanent Building Commission of the Council for Economic Mutual Assistance (CEMA) took place in Berlin at the end of March. The decisions taken at the conference by the representatives of the member countries of CEMA aided the utilization of the advantages of international cooperation in the field of building, so important for a well-planned, proportional development of the economy of the socialist countries.

The Permanent Commission of CEMA was established two years ago. An analysis of the work of the Commission shows that the member countries of CEMA, acting on the recommendations of the Commission, put into practice important measures for industrialization of building, development of the building material industry with standardization, and made preparations for planning in this field.

### For Technological Lines, Well-Connected Basic Projects

For example, the recommendations of the Permanent Building Commission on the technological development of cement plants and on cement products became the basis for the development program of the cement industry of the GDR to 1965. The new Bennburg cement plant was accordingly equipped with technological complexes, each capable of producing 850 tons a day.

Also, in the People's Republic of Poland, the production of cement in general, and of high-quality cement in particular, was increased as a result of the recommendations of the Commission. In establishing economic plans, the recommendations of the Commission on the use of plastics were taken into consideration. In conformity with the decisions of the Thirteenth Conference of CEMA, all member countries took measures to economize on cement.

Of great economic advantage is cooperation among the countries in the planning of prototypes. In conformity with the international unified measurement regulations, the six meter plate was adopted in industrial prototype structures. The recommendations regarding building-technical parameters (main measurement, ceiling, or vault load-capacity) for buildings and for other structures in the chemical

industry, as well as the recommendations regarding application of the free-building technique were declared as still binding. So far, for 22 technological lines of the chemical industry, uniform basic projects in both building planning and chemistry technology have been worked out.

Of particularly great advantage for the GDR were the directives regarding technical development in the field of building and those concerning the lowering of building-technical investments, both taken over from the USSR, which in its turn developed them in conformity with the regulations concerning unified measures.

The lowering of investment costs was appraised in the GDR to be at least 5%. The development of standardized building elements made of reinforced concrete has brought about a revolution in the field of industrial building in the GDR of the same magnitude as the introduction of the great-block and great-plate building techniques had in the field of residence building.

## Cooperation With Other Commissions

The division of labor in prototype planning requires the creation of unified international standards of calculating and measuring building projects. The introduction in the GDR of calculating methods based on boundary conditions instead of the old methods based on permissible stretchings, in conformity with the DIN [a GDR standards authority], brought great advantages. The outline of a new standard for calculating building constructions and foundations by boundary conditions, which uses Soviet norms, has been worked out.

The savings that can be achieved by calculating according to boundary conditions are shown by comparing foundation calculations of a standardized work-hall where, when reinforced concrete was used in the foundations, a saving of nearly 20% was achieved as compared with calculations according to DIN 1054.

The Commission has also done considerable work in the economic field. Research was conducted on the advantages of the new technique, and on the formation and calculation of prices. An all-year analysis of the developments in the field of building in CEMA member countries based on comparative, characteristic figures made it possible to reach conclusions important for the planning of the building industry in certain countries.

In the Stalinallee sport hall there will soon be an exhibition of some of these prototype projects. Particularly interesting solutions for building problems are shown by the following countries:

The USSR in the building of steel frameworks out of standardized, prefabricated elements.
Rumania and Bulgaria for poultry enclosures.
Hungary for greenhouses.
Czechoslovakia for mechanical implements for swine feeding.

The recommendations of the GDR representatives on the application

of mast-building techniques for cold and warm structures were favorably received.

## Specialization and Cooperation

The close cooperation which is developing between the Building Commission and the Commission for Machine Building is shown in the recommendations given at the Sixth Conference of the Permanent Building Commission on technical development and equipment demands in the most important branches of the building materials industry, including the glass and ceramic industries. The exchange of information on the need for building equipment and machinery and the recommendations for the unification of such equipment serve in the machine building industries of the CEMA member countries as points of departure for specialization of and cooperation in the production of machines and structures for the building materials industry. These recommendations serve to lower production costs and expedite scientific-technical modernization in the production of machinery and buildings.

After thorough preparation by experts, the Sixth Conference deliberated on the problem of prefabricated elements made of reinforced concrete and span concrete. The countries were given recommendations concerning technological lines in the production of elements from both reinforced concrete and span concrete, for the production of columns and other supporting elements, and for the production of binding elements. These recommendations were based on both the practical experiences of the countries in working with concrete and on the latest scientific research.

Especially beneficial for the GDR are the international foundations for electrothermic relay systems. The GDR's research in this field can be considerably shortened. A general introduction of these progressive methods for relaying in our industry took place in 1961.

International cooperation can succeed only on the basis of long term, exact working plans. For this reason, the Sixth Conference of the Permanent Building Commission concerned itself in detail with the main directions of the work of the Commission to 1965. In determining the main directions of its work, the Commission used as its chief criterion the economic benefits which may accrue to the countries from cooperation in realizing the plans of their construction industries.

## Establishing General Perspectives to 1980

The center of the continuing activities of the Permanent Building Commission is the working out of general perspectives for building projects of the member countries to 1980. Special stress is put on work in fields where the member countries are in arrears. Among these is the coordination of the scientific research work of the building institutes. For intensive exploration of the problems of heating, ventilating, and sanitary technique there has been created a permanent working group located in Prague.

The characteristics of the continuing work of the Permanent Commission is the detailed working out of particular problems, especially the working out of unified standards, which are the foundations of a further division of labor.

The expansion and intensification of cooperation among the socialist countries requires that direct contact be established between those institutes and plants which are interested in solving particular problems. A very promising beginning in this regard was made in the raw materials industry through the creation of information exchange centers. These centers were created by the institutes and plants which occupy a leading position in special fields, for instance, production of plastics for building purposes. Such plants can give the corresponding institutes and plants of the socialist countries information about the newest procedures. It is expected that plant technicians, researchers, and innovators will participate in the work of these information exchange centers.

An indication of the readiness of the countries for direct exchanges of experiences is the invitation which the Building Minister, Comrade Beran, extended to the Lifke building brigade when he visited the exhibition on Stalinallee. The Berlin building workers will pass on to their colleagues in Prague their latest building experiences. Members of a socialist brigade of the great-plate construction workers in Prague will, on the other hand, show their best working methods in Berlin.

The advantages of the cooperation among the member countries of the CEMA in the field of building are obvious. The previous twaddle of an alleged "additional burden" on the industry brought about by international cooperation has been silenced; this cooperation is today a solid component of research, planning, and working practice in the building industry of the GDR. The possibilities of an even greater use of the advantages of cooperation have by no means been exhausted. The way to accomplish is by the rapid introduction of the recommendations of the CEMA and its Permanent Commission for Building and the full utilization of the results achieved by expert groups in building practices, and building research in the GDR. The recommendations of the CEMA and its Permanent Commission for Building must in relevant cases be supplemented by bilateral and multilateral agreements.

From the institutes, plannings bureaus, and other institutions of the building sector of the socialist countries, above all from the USSR, there flows into our republic a stream of knowledge in the form of drawings, pamphlets, and books. The Central Scientific Building Information Bureau of the German Building Academy has done much in the organization of an international, systematic exchange of building information and documents. It is necessary to increase this kind of work so that the great treasure of construction knowledge in all socialist countries can be used to revolutionize the building sector of the GDR.

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YUGOSLAVIA

## CHANGES IN THE SYSTEM OF CURRENCY AND FOREIGN TRADE

[Following is the translation of an article by "D.C." in Jugoslovenski pregled (Yugoslav Review), April 1961, pages 163-167.]

At the beginning of 1961, significant changes were made in the economic system. Most important were the changes in price policies, in the system of profit distribution of economic organizations, in the credit and banking system, in foreign trade, and in the foreign currency system. The main purpose of these changes was to adjust the conditions of production with the material and public relations realized within production, as well as with the prospective development within the next five-year period.

Foreign trade in the future will be a much more important element in the economic development of the country. The export of goods and services in 1965 are planned to reach a value of 400 billion dinars (as compared to 215 billion dinars for 1960). With the same imports of goods and services (265 billion dinars for1960), 1/5 of the national income will be included in foreign exchange; this means that a large portion of public investment will depend upon the economic ties with other countries. The strengthening of Yugoslavia's position in international exchange requires a constant improvement in production, an increased technical level, lowered production expenses, higher standards, and more competitive ability in the entire economic system. This qualitative side of development is more important, because in future years the entire structure of Yugoslavia's foreign trade will be changed. Therefore, the reform of the foreign currency system is important and is intended to stimulate industries toward rational management in foreign exchange.

### The Former Foreign Trade and Currency Systems

The former foreign currency and foreign trade systems [See note] were established in 1952; they were in force with only a few additional corrections until the end of 1960. During this time significant changes developed in the volume and structure of production, in the development of production forces, and in the volume and structure of

foreign trade exchange. With respect to this, the foreign trade system has not been sufficiently adjusted to material developments in production and developments in the economic system.

([Note:] See: "The Foreign Currency System", Yugoslav Review, 1957, pp 525-527 (173-175) and "The System and Organization of Foreign Trade", Yugoslav Review, 1958, pp 119-122 (35-38).

Export and import coefficients, methods of distributing foreign currency funds, as well as other measures of foreign trade, have not been sufficiently adjusted to the need for a better use of the inner reserves of the economy and to the increasing rate of productivity, but have created more obstacles to the normal functioning of foreign trade exchange and to placing the domestic economy into a realistic relationship with the world market. In the field of foreign trade, most of the administrative interventions have been retained, while the entire economic and public development was aimed toward a greater decentralization of finance and management in economic and public businesses, and greater independence of economic organizations in business politics, in accordance with the development of workers' self-management.

The former foreign currency system had a significant influence upon the formation and increase in the disparity of prices within the country. The ratio of prices in the domestic market and the foreign trade exchange has resulted in very different positions in industries and has influenced differently the formation and distribution of profit in the economic organizations of different regions. Such a ratio of prices originated during the period when significant disproportions existed in the structure of production and consumption. With the later development, many of these disproportions were eliminated or lessened but because of insufficient reserves and a deficit in the payroll balance, it was not possible to make corresponding changes in price levels.

Export and import measures, especially coefficients [See note] have frequently been introduced as they relate to the payroll balance, while particular aspects of the effect upon other sectors of economic development, and upon some of the economic activities in building and distributing profit, have been neglected. Because of this, the coefficients changed from a passive registration of the disparity between domestic and foreign prices, which was their primary role, to an active factor in the formation of prices, especially in the sectors and industries where the exchange ratio with the other countries was more significant. As a result, new disparities originated in the ratio of domestic prices; however, the disparities between domestic and foreign prices have been retained and even increased.

([Note] There existed 12 different export coefficients, ranging from .8 to 2.0 and 10 import coefficients from 1 to 2.5. These coefficients represented the multipliers which have been used to multiply the accounting rate which depended on the commodity.)

The coefficients were intended to level the difference between the domestic and foreign prices for exported and imported goods,

measured by the base, the accounting rate of the dinar (632 dinars for one US dollar). When the prices for some of the exported and imported goods have been compared to domestic prices and have not been level with the accounting dinar, the exportors receive the difference in dinars according to a predetermined coefficient from a special fund, while the importors are required to pay the difference to the same fund.

However, under the direct pressure of constantly increasing needs for import and the necessity to increase export, during the determination of the export coefficients wide ranges in the rates used to calculate the exported goods developed, (from 500 to 1200 dinars for 1 dollar); this increased the differences between some of the activities and economic organizations in the realization of production and profit and in the relationships of distribution, which frequently have not been the result of qualitative production. The export coefficients also lessened expenses in the country. The decrease in prices of foreign markets resulted in an increase in the levels of coefficients and sometimes caused an increase in domestic prices.

Besides, the import coefficients for some very important goods -- especially basic raw materials (reprodukcioni materijal)-- have been set at a lower level than the corresponding price levels of the country. This stimulated the economic organizations to orient more toward import, toward a better use of the imported raw products which were sometimes cheaper than those within the country, and to learn the methods of producing new parts, etc.

The export-import coefficients, the ranges in rates, and the differences between the export and import rates have made it impossible to obtain a realistic picture of the profitability of export and import and to have a clear orientation with respect to investments and the comparison of production expenses; they have also complicated the relationships in the economic movements within the country and in the exchange with other countries.

The distribution of foreign currency for import, with respect to volume and structure, has always been strictly defined. During the very dynamic development in production and consumption, the distribution of foreign currency for import, set between strictly defined limits, has become less and less elastic, especially in instances where the fast adaptation of production toward new needs was in question. As a result, the profitable economic organizations have received less foreign currency resources than those with higher production expenses. In this way, faster development and economic independence has been limited, because the greater or smaller amounts of currency received from the funds forced the producers to greater or smaller volumes in production, i.e., a greater or smaller use of capacity. The closeness of Yugoslavia's market, the potential export and import measures, and the methods of distribution of foreign currency bore also monopolistic tendencies and caused an increase in those domestic prices which were independent of production expenses. This insured a certain number of economic organizations an unmerited increase in income, which was not

in agreement with productivity and the principle of distribution according to the amount of work invested.

Disproportions between the foreign currency system and the economic system, as well as the negative influence of export-import measures upon some of the economic activities and organizations in making and distributing the profit, have increased during the last few years, when the exchange with other countries has become a more important factor in furthering the economic development of the country. During the same time, the material conditions necessary for radical changes in the currency system and in foreign trade have been developed.

## Fundamental Principles of the New System

The changes in the foreign currency system and in foreign trade were designed to bring about the gradual elimination of earlier formed disparities in prices. ([Note:] See the regulations concerning foreign currency transactions, "Official Newspapers FNRJ", 2/61.) The adjustment of prices with the real conditions on the market will, to a great extent, do away with intervention by the administration in this field and put into effect laws adjusted to the general policies of economic development. In this way, the conditions which influence prices and profits in various areas of activity in economic organizations will depend greatly upon the material relationships of the market. These relationships, however, depend greatly upon the conditions of trade in foreign exchange, i.e., upon the conditions which regulate Yugoslavia's share of the economy in the international distribution of labor. Exports and imports are based upon the prices of the world market, but the prices may not always agree with the conditions of production within the country. The new general accounting rates and other measures of foreign trade which are based upon prices formed and profits realized in the domestic market adjust domestic and foreign prices and enable normal exchange with other countries.

Analyses of the ratio of prices and the expenses of production, including taxes to society, which are paid by all industries, have shown that the prices for basic raw materials, which insure different industries normal conditions for development, are on a parity of about 700 dinars per one US dollar, according to the corresponding prices on the world market. Such prices as those of basic raw materials insure the same parity in more advanced phases of production, provided that modern techniques have been used. Thus, Yugoslavia's economy is able to find its rightful place in the international distribution of labor by having direct contact with the economies of other countries; it is also well-supplied, which speeds development. At the same time, it accepts the most modern techniques of production and is reaching the productivity level of the more developed countries.

However, many industries are not very developed in the more advanced phases of production; if they were, it would enable them to produce at the same expense level of other countries and at the same time have normal conditions for development. In such industries,

especially those with a real prospective for increasing productivity up to the productive level of more developed countries, a certain period of time is required to learn the techniques of production. During this time the domestic prices will remain at a higher level. Such industries will be protected temporarily in exporting by the corresponding customs duties or premiums when the domestic market cannot consume the production. However, the customs duties and premiums for export protection have predetermined limits: both put pressure on production and domestic consumption. Therefore, there will be no customs or premium protection for low-productivity industries which export, apply uneconomical methods in production, do not add significantly to their overall production, or are unable to reach a high level of productivity within a foreseeable time limit.

Therefore, the purpose of the reform in foreign currency is neither to refute the economic policies of the country, which in previous years have given such wonderful results, nor to leave Yugoslavia's economy to be influenced by the actions of the foreign market or the oscillations and movements in foreign economics. Rather, the more adequate measures established in the foreign currency reform will speed economic development and expose the domestic market to such factors of the foreign market that will decrease the expenses of production and increase the competitive abilities of Yugoslavia's economy, while at the same time protect the dynamic nature of the economic development, and thereby increase the living standards within the country.

## The Basic Elements of the New System

The most important elements of the new currency and foreign trade systems are found in the accounting rate, the export and import systems, and the method of currency allocation for the import of goods and services.

The basic change in the currency system is the principle that the payments and collections obtained from exchange with other countries is based on a unique accounting rate. Simultaneously, the new accounting rate was determined by another regulation. The new rate corresponds to the previous official rate, increased by 150%; i.e., 750 dinars for one dollar, or the corresponding parity in other foreign currency.

The new accounting rate of 750 dinars for one dollar replaced the previous system of multiple rates. All products which are now exported at rates lower than the new rates have become more attractive for sales on the foreign market because of the better dinar rate. At the same time, this meant a decrease in the value of domestic currency, a devaluation. But the new accounting rate and the whole system of export-import measures established more restrictive conditions for the industries, which, up to the present, were permitted to participate in trade on the foreign market at much higher rates. For such industries, the dinar rate was less convenient than previous rates; in effect, this meant that the value of domestic currency was strengthened,

i.e., a re-valuation of the dinar. Such industries can now trade on the foreign market only if the prices and expenses of production are decreased.

In determining the new accounting rate, an exception has been made with respect to the currency brought into the country by foreign tourists, diplomatic and other foreign missions. For these, the rate of 600 dinars for one dollar has been set, or the corresponding parity in other foreign currency. This exception was made because the unique dinar rate of 750 dinars for one dollar would result in an increase in prices for services to tourists offered on the domestic market which would not be in accordance with the personal income of the population or further the development of domestic tourism. The new tourist rate provides the necessary competition between the domestic and foreign tourist economy. The measures established in connection with this problem also offered better conditions for services and for other tourist economic organizations.

Basically, the export of goods and services is unlimited, but for a better adjustment in the volume and structure of production related to changes on the domestic market, the export of some goods is limited by quantity. The value or the quantity of the goods exported is determined by the appropriate federal department. Also, some goods which are of greater importance for domestic consumption can be exported only by permission. Such permission is given at the request of economic organizations and issued by the federal department responsible for the volume of export limited by quantity.

The export of goods and services is based on the principle of the unique accounting rate. However, in the present instance, industries which are also important from a future point of view will not be able to trade with other countries without the premiums in the transitional period. The premiums are still necessary, either because such industries have not as yet adopted the contemporary techniques which result in higher expenses (compared to similar foreign industries) or because of the distribution of capital in the country, which is still being formed in the finishing industries and which also influences the ratio between foreign and domestic prices. The elimination of taxes or tax returns for exported goods is designed to neutralize the burden of taxes upon domestic consumption.

The premiums are determined by the Federal Executive Council and are now 10%, 25%, or 32% of the price obtained for certain kinds of goods and services (recalculated in dinars on the basis of the unique accounting rate.)

The currency obtained from the export of goods and services must be sold to the National Bank and brought to the country immediately after the payments have been collected. The payments are due within a maximum of 90 days from the day the goods are exported or from the day the customer receives the invoice. Only in rare circumstances can the 90-day limit be extended. It is also possible to export goods on credit.

The most important change in the system of foreign trade is the

new import system. Goods can be imported freely on the basis of liberal permission, within a predetermined quantity, on the basis of restrictive permission, and on the basis of general permission, within a certain value limit.

Because the majority of imports is granted on the basis of liberal permission, the gradual elimination of import limitations will strengthen the economic potential of the country and its foreign trade; it thereby will become more important in the next few years. The present level of import liberalization is in accordance with the existing material potential. The remaining imports will be controlled by volume and by the required permits for import, within certain regulations.

The new system for allocating foreign currency for import gives economic organizations greater possibilities to insure and obtain needed foreign currency funds. Economic criteria and the profitability of production are more greatly emphasized in the process of distributing the foreign currency funds.

The way that economic organizations can apply for foreign currency for import depends upon how the goods were imported:

for products which are imported freely, the currency can be obtained from licensed banks in unlimited amounts;

for goods imported on the basis of liberal permission, the currency is obtainable from the same licensed banks, but only in the amount stated on the import permit;

for goods imported on the basis of general importing permission, the amount of currency allowed is determined by the percentage of currency which the economic organization used for imports during the previous year.

This percentage is determined in advance for each year. During 1961 economic organizations can use only 80% of the foreign currency used for import during the previous year, 1960. The amount used for importing goods from the lists of free imports, imports based on liberal permission, and imports limited by quantity is deduced from the 1960 base. If the economic organization did not use the full amount of foreign currency for the previous year, it is credited to the amount alloted for the next year. The amount of foreign currency determined on the basis of the previous year is, in fact, the guaranteed portion of foreign currency available to the economic organization for imports. An additional amount of foreign currency is available to the economic organizations through contracts arranged with the bank, but must take into account the profitability of the business. If the organization used foreign currency obtained on the basis of general permission for the import of goods from the lists of imports limited by quantity or for the goods imported on the basis of liberal permission, the regulations for such imports must be respected.

The choice of imports is free, but the foreign currency funds can be used only when importing permission has been obtained for the importation of goods from the lists subject to restrictive permission.

Special foreign currency funds exist for the payment of imports limited by quantity. The amount of currency, the kind of currency, and

the deadline for the submission of requests are determined by the licensed banks. Organizations with the same interest can agree on the share and distribution of the foreign currency and the volume of imported goods. In this instance, the licensed banks would be notified, and payments would be made automatically on the basis of the agreement. If it is not possible to make such an agreement, the final decision concerning the volume distribution is determined by the competent federal authority, which in turn would take into consideration the needs for an increase in export or a decrease in import by increasing domestic production and improving the structure by creating good conditions, good terms for payment, and other adjustments in the foreign currency balance.

Export organizations have the right to buy an additional amount of foreign currency from the licensed banks. This amount is proportional to the amount of foreign currency earned by the organization. The foreign currency can be used for buying foreign goods and for operating the organization, but according to the regulations provided for such instances. The exporters receive 3% of the amount of foreign currency from the export of agricultural p roducts; 7% from the export of industrial products, from services in international transportation and other services in the international exchange of goods and services in tourism, as well as from the services of the tourist bureaus; 25% from the export of wild game products, medicinal herbs, books, magazines, music, and domestic films.

The allocation of foreign currency for the importation of goods for personal consumption is determined according to the lists of goods.

Foreign currency can be obtained from licensed banks by contract according to the regulations which govern the financing of investments for the importation of equipment. Foreign currency funds obtained through general permission may be used for the importation of equipment, as can the foreign currency funds which exporters receive as a percentage of the profit realized from exports. If the equipment is subject to restricted importation, import permission must first be secured. Economic organizations can buy foreign currency freely from licensed banks for the import of equipment within the accounted-for dinar fund of amortization. These funds are: 0.5% of the total amortization funds accounting for the present and previous years (paid portion for basic equipment) for the Union of Yugoslav Railways, 2% for coal mines, mines and smelting plants for machine-building industries, for harbors and terminals engaged in ocean traffic, 8% for the oil industries, 10% for stevedoring and terminal services, 14% for river transportation, 30% for air transportation, 1% for other economic organizations engaged in other industries and transportation, and 20% from the amortization funds accounted for in the present year for agricultural economic organizations. The dinar fund, obtained by applying the above percentages, forms the limits within which foreign currency can be procured for buying and paying customs; it is paid in both instances on the basis of the accounting rate.

When equipment is imported on credit, the economic organizations

must determine with the licensed banks the ways in which foreign currency is to be procured, but this must be done before the contract is made.

The new regulations make it possible to introduce deposit institutions. When importing some kinds of goods, the economic organizations must deposit the amounts in licensed banks.

The charges for services performed to licensed domestic economic organizations are collected in dinars if the services have been sold to the domestic customer either in this country or abroad. Collections are made in foreign currency for the services sold to the foreign customer. If domestic economic organizations use the services of foreign organizations, the charges must be paid in foreign currency. In such instances, the foreign currency can be bought from the National Bank.

([Note:] The word "services" means the combined services performed on railroads, on the highways, sea, sea-river, river, in ports, towing and salvaging vessels and other objects in the water, by sea agencies, the Institute for the Classification of Vessels, trucking, for qualitative and quantitative control of products, by insurance, the postal telephone-telegraph service, and the tourist business with other countries, except services to hotels and restaurants.)

The economic organizations which export and import goods can obtain foreign currency by mediation under the same conditions as economic organizations registered for such businesses. The foreign currency obtained in this way may be used for financing industries whose goal is to decrease imports and increase exports.

Payments obtained from exchange with some countries are regulated by trade agreements. If such an agreement does not exist with a particular country, the method of making payments is determined by the National Bank. Liberal treatment for payment and exchange of goods is given only when dealing with countries trading with Yugoslavia which have the same understanding of the regulations.

A system of customs was introduced in the import system simultaneously with the changes in the allocation of foreign currency. The customs system protects industries which have realistic prospectives for development, and the custom rates are chosen so that they serve as an incentive to the producers to decrease the costs of production and to economize on imported materials; this indirectly influences the volume of imports. Until a law of custom tariffs is established, customs on the goods imported into Yugoslavia are paid in accordance with the existing rates listed in the Temporary General Customs Tariffs. These rates are both privileged and general. Privileged rates are applied to the goods received from the countries with which Yugoslavia has an agreement or from the countries which actually apply such regulations with Yugoslavia. The general customs rates are applied to imports from other countries. The customs payments are derived from the value of the imported goods, plus the cost of transportation, insurance, and delivery to the Yugoslav border. An exception is made and other procedures applied for the importation of vehicles and other goods brought into the country by the citizens. In some instances

the usual exemption from customs can be expected.

The foreign currency and foreign trade systems are designed to provide to each economic activity the conditions necessary for the realization of goods and services in the domestic and foreign market which corresponds to a particular industry and to how it relates to public needs and to the productivity of each industry. In this way, both the foreign currency and foreign trade systems contribute to achieving the predetermined changes in the material relationships in the economy, as well as to achieve the planned goals for the distribution of profit.

The new currency and foreign trade systems have developed as a result of domestic needs, the necessity to develop the economy and foreign trade, and the need to further the development of the economic system. They have created new possibilities for increased economic co-operation with other countries. These changes have brought about better relationships between Yugoslavia and other international economic organizations and a better use of the advantages they offer. Yugoslavia is assuming the corresponding obligations and is trying to find the best way possible to be included in the international distribution of work.

## LIST OF GOODS

### EXPORTS

#### LIST OF GOODS FOR EXPORT WHICH ARE LIMITED BY QUANTITY

Industrial products: propane-butane, cast rolled products, electrolitic zinc, silver, bismuth, mercury, rolled products cast from copper and copper alloys, cement, pane glass, kitchen pots, fittings and sanitary equipment, sodium hydroxide, sodium carbonate, evergreen lumber, natron paper, cardboard, plywood, wrapping paper, writing and typing paper, all kinds of thin paper (except cigarette paper), linen and cellulose yardgoods, leather soles, leather shoes, rubber shoes, and egg products;

Agricultural products: red, white, and vetch clover seeds, cattle lentils, cattle, except for grades 1 and 1a, and whole eggs.

#### LIST OF GOODS FOR EXPORT WHICH REQUIRE EXPORT PERMISSION

Industrial products: scrap iron, old ore, white and grey iron [raw], construction beams, raw steel, metal plates and scraps of all kinds, pipes with seams, ferromolybdenum, calcium molybdate, concentrate of molybdenum, ferrowolfram, tin, electrolitic copper, raw zinc, scraps of various colored metals and their alloys, aluminum in block-ingots, asbestos fibers, sulphuric acid, fertilizers of all kinds, blue vitriol, electrolitic sodium hydroxide, paper waste, newsprint, pulled wool, raw hides and furs from small and large animals, calf leather, flour

of all kinds, fat, butter, lard, tallow, cooking oil, powdered milk, flour made from blood, fishes, meat and bones, combined concentrated cattle feed, bran, sugar, dry noodles made from sugar cane, products obtained by processing sunflowers (except the products obtained from processing imported seeds of flax, papaver, and its products), lumber building material, evergreen, chestnut, and oak wood for fuel, evergreen celluloid wood, chestnut and oak wood which contains tannin, all kinds of lumber for technical use;

Agricultural products: wheat, rye, barley, hybrid corn seed, flax seed, soybean, colza, sunflower, onion, young horses and their meat, calves up to six months and their meat.

IMPORTS

LIST OF GOODS FROM FREE IMPORT

Basic raw materials: coal for coking, graphite electrodes, petroleum for aircraft, petrol-coke, highly active tar, lubricants, concentrate of wolfram, manganese ore, magnesium, wolfram, molybdenum coils, kaolin, graphite, baked clay, raw clay with over 40% of $Al_2O_3$ and less than 4% $Fe_2O_3$, natural kreolite, natural fluorine, graphite pottery, optical and semi-optical glass for industrial processing, raw phosphates, sulfur, tetraethyl lead, flotation reagents (except xantate), caustic soda, calcified soda, cord tires, silicon carbide, sodium sulfide, rutile, additives and solvents for the petroleum industry, polymer phosphates for detergents, dodeca-benzine for detergents, glues for the wood industry, basic raw materials used in photography, crystals for the radio and electronics industries, cellulose (sulfite and sulfate), natron paper, raw cotton, synthetic fibers, wool, wool rags and leftovers, flax, jute, sisal, manila and other hard fibers, cotton, synthetic and linen floss, felt, synthetic tread for shoes, seaweed, rabbit hair, horse hair, sieves for mills, raffia, flax floss, scraps of cotton, large and small raw hides, rubber (natural, synthetic, and regenerated revertex and latex), flax seed for industrial processing, fresh sea fish for the canning industry, and cork;

Goods for personal use: southern fruit (except oranges, lemons, and tangerines ), tea and seasonings, coconut flour, codfish, food products for infants and children, fruit juices and vegetable juices with or without sugar (nonfermented and nonalcoholic), mineral water for health purposes and other mineral water, hard liquors, dessert and aromatic wines, champagne and beer, processed tobacco, extracts and essences of tobacco, color film and color paper, developers, fixers, and chemicals for color films and paper, and art paints;

LIST OF GOODS FOR IMPORT WHICH REQUIRE LIBERAL PERMISSION

Scraps and wastes of copper and copper alloys, iron ore more than 42% Fe , grey raw iron, worsted flax, cacao, tallow, palm seed oil, coke-oil and linseed oil.

LIST OF GOODS FOR IMPORT WHICH ARE LIMITED BY QUANTITY

Materials to be processed-- raw materials: aluminum, electrolitic copper and other kinds of copper, nickel, cromium ore, rolled products of black metallurgy, white raw iron, old iron, coke and coke dust, anthracite, stone coal, diesel fuel (gas, oil), nitrogen and potassium fertilizers, cement, tin and its alloys, asbestos fibers, pneumatic tires and tubes, cattle feed, pigs for the canning industry, lumber, soybeans, newsprint, pharmaceutical products, and tannins;

Goods for personal use: non-metals, metal and plastic products, and porcelain for household use; zinc pottery, notions, jewelry and bazaar goods, chemical products for personal use, musical instruments, their parts and equipment, photographic cameras, tools and photochemicals, equipment for use in hunting, fishing, and other sports, bicycles and bicycle parts, tools and tires, paper products, writing and drawing equipment, radios of all kinds (including transistor radios, except for parts and tools), electric heaters for domestic use, electric radiators, electric cookers, electric irons without regulators, light bulbs, electric ovens (except for accessories and parts), washing machines, refrigerators (except for accessories and parts), television sets (except for accessories and parts), other electric and electro-acoustical equipment (including accessories and parts), textile products, leather and rubber shoes, drugs, medical instruments and ambulance materials, films and supplies for movie equipment, black and white photography paper and film (except for the narrow black-and-white positive movie and x-ray film), coffee and other foods not listed in the list of free imports, salt, books, magazines, and music.

LIST OF GOODS FOR IMPORT WHICH REQUIRE RESTRICTIVE PERMISSION

Basic raw material: crude oil, gasoline for engines (except for aircraft), radioactive chemical elements and radioactive isotopes, kreozone oil, and phosphate fertilizers;

Goods for personal use: groceries except coffee and other goods listed as subject to free import, sewing machines, and typewriters;

Equipment: rail vehicles (except for electric and diesel railroad locomotives), dredgers and tractors, trailers of all kinds, street cars, trolley-buses and their trailers, cooling installations, dry-cleaning machines and mangles, looms and weaving machines for the cotton and wool industry, agricultural machines such as tractors, combines, silage machines, and adjustable elevators, motor vehicles of all kinds (including motorcycles), and cash registers.

Source: "Regulation of Foreign Currency Business," Sluzbeni list, FNRJ, Feb 1961.

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YUGOSLAVIA

# THE STRUGGLE OF TWO OPPOSING TENDENCIES IN THE INDUSTRY OF THE UNDERDEVELOPED COUNTRIES

/Following is the translation of an article by Janez Stanovnik in Nasa Stvarnost (Our Reality), No 3, Belgrade, 1961, pages 271-294./

This article presents the struggle of the socialist and capitalist economic systems in the underdeveloped countries.

Among the underdeveloped countries of today we include three great geographical areas: Asia, Africa, and Latin America. Each has its own peculiar characteristic: Asia is known for its dense population, Africa for its shortage of trained personnel, and Latin America for its shortage of domestic industrial investments. At the same time, all of them have something in common: they are all suffering from their former position in relation to the world industry and economy. Latin America was first to gain political independence, Asia came second, and Africa is still in process of gaining its freedom from colonizers. For all of those countries, however, freedom from foreign rule did not mean also an immediate freedom from capitalist exploitation. The colonial system as such left its marks on their domestic economies, and reactionary forces in their former mother countries are still struggling to keep their privileged exploiting positions. This is why the struggle between capitalism and socialism in these countries goes far beyond their national border lines. Attempts are being made to influence the industrial growth of such countries in order to tie them to certain political and military blocs and groups and also to force them to abandon their position of neutrality.

( /Note:/ In relation to all this, it is very typical to present India as a model underdeveloped country which has been using the capitalist system of development, as opposed to China as a model of socialist industrial development. In regard to this, look up a very typical analysis from the western point of view in the work by Dr Vilfred Mandelbaum: India and China: Development Contrast, "Eastern Economist Pamphlets", No 35.)

In the system of colonial capitalism, /See Note/ the creation of the so-called "oasis" or industrial belts of plantations, mines, transportation, and processing industry, whose products were meant for export, was very typical. All these industries were integrated into the economic system of the mother country. Domestic industry was often still limited to a primitive collective system (family, village, tribe, or caste). The capitalist section of colonial industry was developing, at least officially, under the principles of private enterprise. Financially, this capitalist section was tied with the economy of its mother country with private export capital.

( /Note:/ For a detailed analysis of the colonial economy, see an article by the author: "Historical Roots of Problems in Industrial Under-

development," Nasa Stvarnost, No 5, 1960.)

To understand the mechanics of colonial exploitation, we must analyze the mechanics of exporting capital. This will also help us in understanding certain current tendencies which we may come across.

The term "export capital," used in this article, is probably not the best for describing the process of creation of international finance in the typical colonial period (from 1870 to the First World War). This process as such did not actually involve any real transfer of capital or any values whatsoever. It was a mere bookeeping operation which involved reinvestment of profits derived from existing investments. These reinvestments have been entered in the books as "export capital" from mother country to the colony. Actually, it meant only that not all of the profits were taken to the mother country; the bulk of them was used in the colony itself to expand the capitalist sector of industry.

([Note:] Today there is virtually no difference in opinions among economic historians on this subject. The study of the United Nations, International Capital Movements During the Inter-War Period (New York, 1949), states in its introduction:

"Throughout the whole period (1874-1914), the estimated overall sum of export capital from the following three countries (Great Britain, France, and Germany) practically equaled their overall profits from investments. At least at the end of that period the average yearly profits were about 5%. In the meantime, however, overall international investments have shown tendencies to double every twenty or thirty years. It seems that the growth of profits was financed from the profits of former investments (Page 1).

From an economic point of view, the export of private capital was not a process of increasing domestic accumulation of capital by foreign means. At the same time it was not a process of importing investments which would exceed the importing capacity of a certain underdeveloped country. Actually, it was a process of increasing foreign capitalist control and domination over certain colonial industrial areas.

It is plain that because of this process the capitalist sector of industry was practically identical with the foreign section. In the same way, the exporting economy was identical with the main capitalist trend. Out of all this comes the contradictory phenomenon of class development in colonies: a native proletariat appears on the social scene with the appearance of a native bourgeoisie. This phenomenon in itself chiefly explains the character of anticolonial movement.

In order for such a system to function properly, it is necessary to have direct political rule over the whole territory. It is very often pointed out that in the colonial period the bulk of foreign investments did not go directly into the raw materials (and consequently the processing industry), but into so-called economic "infrastructure." As Ragnar Nurkse states, the overall colonial investment of Great Britain in 1913 amounted to 3,700 million pounds of sterling. Out of this investment, 30% were loans to local governments, 40% went for purchasing shares in railroad companies, and 5% were invested in municipal and public services.

(/Note:_7 Ragnar Nurkse, "International Investment Today in the Light of Nineteenth Century Experience," The Economic Journal, Vol LXIV, December 1954, page 747.)

In Africa, more than anywhere else, we come across foreign investments being put into export trade. This later resulted the development of colonial marketing boards. All this goes only to show how closely was the political rule over colonies tied with the system of private investments. Colonial rule was the safeguard of a unified economic system; it guaranteed a close tie between the capitalist sectors of the colonial economy with the whole capitalist system of the mother country. Colonial government was actually a sort of board of directors with colonial investors as members. This board eased taxes on foreign investments, gave foreign firms free access to the natural resources of the colony; all this was done under the pretense of stimulating local economic growth. It also passed labor laws to insure an undisturbed exploitation of the native labor force. It is no wonder that under such conditions the profits derived from colonies far exceeded those in the mother country. This resulted in an increase in export capital, which in turn increased capitalist control over the colonial industries.

With the political liberation of colonies, this system underwent certain important changes.

After political independence, the demand for economic emancipation follows. This demand in modern times assumes the aspect of industrialization and devirsification of domestic industry; in other words, it tends toward economic growth.

Just as the demand for political independence and sovereignty was contrary to colonial interests, so the demand for economic emancipation represents a sharp opposition to the colonial economic system and exploitation.

## Part Two

Underdeveloped countries of today are generally dominated by the so-called "mixed economy" system. This means that besides a relatively strong state industry there still remains a more or less strong "capitalist sector," together with the so-called "traditional section" of precapitalist economy. The interrelations of these three groups is in no way founded on principles of parity; neither are they equally represented in all parts of the countries. The "mixed economy" factor itself points toward a struggle of opposing economic and social trends.

State industry of an underdeveloped country differs from that of an industrialized state. It differs both in its foundation and in its significance. Its significance cannot be judged from the amount of public expenditures in a state revenue. The following table will explain why this cannot be done.

(/N o t e_7 A. M. Martin and W. A. Lewis, Patterns of Public Revenue and Expenditure, The Manchester School of Economics and Social Science, Sept 1956, page 205.):

Public expenditures in relation to Gross National Product
(for 1953 or 1954)

| | | | |
|---|---|---|---|
| Tanganyika | 11.91% | Colombia | 11.80% |
| Uganda | 12.26% | Trinidad | 15.54% |
| India | 8.84% | Italy | 24.58% |
| Nigeria | 4.9% | France | 25.76% |
| Ceylon | 14.42% | United Kingdom | 34.00% |
| Ghana | 12.20% | New Zealand | 30.12% |
| Jamaica | 13.08% | Sweden | 23.49% |
| Guiana | 14.29% | US | 27.43% |

The historical roots of state economy in underdeveloped countries lie deep in the colonial economy itself. This came about because modern capitalism was introduced into the colonies as an outside product, not as a product of normal social and industrial processes. Because of this, the state sector of the economy was always more strongly represented in colonies than in any western countries during their initial industrial growth.

([Note:] A very characteristic statement about England made by a well-known economic historian, L. C. A. Knowles: "What distinguished Britain's industrial growth in the 19th century from other countries was the fact that it owed practically nothing to help from the state. . ." The industrial and Commercial Revolutions in Great Britain During the Nineteenth Century, London, 1921, page 171.)

Colonial government, besides its own regular functions, took upon itself several economic functions as well. After all, colonial government was nothing more than a common board of foreign stockholders. Because colonial capitalism did not grow out of its own strength, it had to rely on colonial government for building the necessary "infrastructure." Colonial government provided initiative for building railroads, canals, highways, ports, electric stations, and water supplies. This made it possible for individual industries to grow and prosper.

Since gaining their independence, the underdeveloped countries have encountered a relatively strong and diversified state economy. During the colonial rule this whole industry was aimed at the support of foreign investments. Nowdays, one of the first problems of new government is to make use of this apparatus in securing their own industrial goals.

This is where an underdeveloped country clashes sharply with the capitalist section of its economy, which is mainly represented by foreign investors and, in a small way, with domestic circles, which for political or economic reasons are dependent on foreign capital.

In order to achieve progress in industry, it is necessary to secure an accumulation of capital for investment. During the colonial period, foreign investors took out more profits than they invested. Their profits were greater than the amount of new capital they imported. With the end of colonial rule came the end of political, military, and police protection

of foreign property. At the same time began a rapid process of amortization. The flow of capital out of the country increased, as did liquidations of foreign investments and their so-called repatriation back to the mothercountry. After India gained its independence, foreign investments dropped from 320 crores-rupees in 1948, to something over 200 crores-rupees in 1953, which is about one-third. An underdeveloped country is faced with problems of stopping this flow.

(/Note:_7 Geoffrey Tysan, "Foreign investment in India," International Affairs," April 1955, page 176.)

Another condition for industrial progress and growth is to orient the domestic economy toward its internal market. The colonial economy as a whole was oriented toward the world market and was developing under its impulses. Foreign investments have used cheap labor, cheap raw material, cheap transportation, and low tax rates all this made the national economy of the colony suffer.

Actually, this apparent cheapness was nothing but a hidden way to accumulate capital. This accumulation took the form of profit, which was flown out of the country. Because the buying power of natives was limited, there was no immediate necessity to create new industries to satisfy the growing needs of the population. Any eventual needs were satisfied through imports. This importing has probably done more harm to the colony than the actual export of its natural products. A land, in order to develop itself, must not only mobilize its financial accumulations, but must also put a stop to satisfying local demands by importing goods from abroad.

(/Note:_7 For a more detailed explanation of this problem, see the study made by Hans V. Singer, "The Distribution of Gains Between Investing and Borrowing Countries," American Economic Review, Volume XI, May 1950. The author in this study actually analyzes five ways by which foreign investors draw profits from their investments (more employment by widening the export market, by increasing production as a result of expanded productivity, industrial dynamics because of increased activity, the results of technical progress in the colonies, the increase in profits as a result of increasing demand in the colonies. Finally, he states: "When, after receiving their profits in forms mentioned above, they still demand their "money back," they probably want (in an economic if not in a juridical way) to be paid twice. They want to get a liter of liquid out of a quarter-liter can (Page 480).)

A third condition for the industrial progress of a country whose economy was in some way deformed during colonial years is to aim its efforts at its basic and key industries. The directions which these efforts are to follow must not be given by profit seekers, but by national leadership. This national leadership must decide to emancipate industry in order to build a strong base for its young independence.

(/Note:_7 The necessity for underdeveloped countries to follow this line in their economic policies is beginning to be understood by some western economists. This attitude is very strongly represented in a study.

by Albert O. Hirschman, The Strategy of Economic Development, Yale University Press, New Haven, 1958.)

Because of this, it is imperative for underdeveloped countries to take certain steps in limiting private, especially foreign, capital. The political convictions of a given underdeveloped country should not make any difference whatsoever.

([Note:] A liberal American Economist, Edward S. Mason, states: "Creeping toward socialism was more a result of objective changes than a change in ideology." Economic Planning in Underdeveloped Areas: Government and Business, Fordham University Press, New York 1958, page 3.)

This is why we can see the wave of nationalization which has taken over practically all underdeveloped countries changing from a colonial to a national economy.

When in the beginning of the last century Latin-American countries were liberated from Spain they nationalized all foreign investments. They did this by refusing to pay back loans. In the same way, British railroad investments in the US were taken over by Americans; this, however, happened by way of bankruptcy. The financial obligations have ended, but the actual railroad installations remained. Nationalization of the oil industries in Mexico was the beginning of the fast economic progress of that country, beginning in the forties.

([Note:] At the time of the nationalization of the Mexican oil industries, which was at the same time an act of expropriation, the American share was valued at about $200 million, and the share of British and Dutch investors about $250 million. See the U. N. Department of Economic and Social Affairs, Foreign Capital in Latin America, New York, 1955, page 113.)

Right after its independence, India nationalized all reserve banks (Sept 1948). On 6 Aprile 1948, the Indian government issued a resolution defining which industries fall under basic national concern. Later in 1958, the number was increased to 17.

In its temporary constitution, Indonesia in 1945 stated that it reserves, as a perrogative of its government, the nationalization of all industries vital to its Union. In 1951 the Bank of Java was nationalized, and in 1958 the air line company met the same fate. At the same time, all Dutch companies were nationalized. This represented almost 70% of all foreign capital invested in that country $1.2 billion in value. In 1952, Burma nationalized its basic national product -- rice. Later it nationalized public transportation and some lesser industries.

On 2 May 1952 Iran, in a revolutionary attempt, nationalized its oil industry, which was valued at about 200 millions pounds of sterling.

On 26 July 1956 Egypt nationalized Suez; in 1960 the national bank was nationalized. At the same time, a number of Belgian companies involved in transportation and power were also nationalized.

On 31 October 1952 Bolivia completed the nationalization of her tin mines. In 1960 Cuba nationalized the American oil industries and later all property of US and other foreign investors.

Young African countries generally do not nationalize foreign firms,

but some, such as Ghana, are ready to do so. Ghana is even making preparations to take over key industries which belong to foreign capital. Many African countries which are at the end of their colonial period have nationalized their marketing boards, the main source of capital accumulation in those countries.

(/Note:_7 See an interesting analysis in article by Sir Percival Griffiths, "Investing in Africa I and II," The Financial Times, 7 June 1955, where the author sees in the development of these state-export organizations a system of "state socialism."

The process of nationalization of foreign industries does not take the shape of expropriation or confiscation.

(/Note:_7 In the UAR "Egyptization," is often talked about. Many other underdeveloped countries talk of the necessity to repatriate their national wealth."

A national government must have control over its private resources and must guide them toward national industrial goals. Because of this, nationalization cannot be regarded as a step toward creation of a socialist state. It must be regarded as a necessity, not as a tendency toward socialism.

(/Note:_7 See the very interesting analysis by a liberal American economist, M. Bronfenbrener, "The Appeal of Confiscation in Economic Development," Economic Development and cultural Changes, Vol III, No 3, April 1955. In this article, the author defends the nationalization of private land-holdings in underdeveloped countries as a measure necessary to increase productivity.)

This conflict between private capital and national industrial development is the result of their difference in interests. By resisting foreign capitalist interests, the underdeveloped countries actually, whether consciously or not, support the historical tendencies of socialism.

(/Note:_7 See the study of author, Socialist Elements in Development of Underdeveloped Countries, Kultura, Belgrade, 1960.)

By nationalization of foreign investments, underdeveloped countries gain control over their own accumulation of capital and are able to use it in interests of their industrial growth.

In the professional economic circles of these countries, the idea is dominant, that the capitalist system does not leave enough room for a speed-up of their economic development.

(/Note:_7 An American economist, leftist Paul Baran, states: "The possibility of solving the economic and political blind alleys which dominate underdeveloped countries through progressive capitalism has all but disappeared." "On the Political Economy of Backwardness," Manchester School, January 1952. A recognized liberal economist from India, D. R. Gadkil, says: "Today, only a wealthy country like United States can afford to talk about free enterprise; it can even suffer loses because of it. Economic Policy and Development, Godkale Institute of Politics and Economics, Poona India, No 30, page 84.)

At the same time none of these countries, except China, North Korea, and North Viet-Nam, have gone as far as to openly resist capitalism and even

to declare open war against it. In most cases all these countries are trying to find their own road to "state capitalism," in other words to a "mixed economy." Under these circumstances, the state takes over a number of very important roles and very often is quite active in the field of industrial planning.

([Note:] See on this subject, as far as Latin America is concerned, the very interesting study done by Vladimir Dragomanovic, "Specific Role of the State in the Development of Latin-American Capitalism," International Problems, No 1, 1959. For Africa, see UN Department of Economic and Social Affairs, Economic Survey of Africa Since 1950, chapter 4; for Asia, see the study, "Working Party on Economic Development and Planning," published in Economic Bulletin for ECAFE).

The importance of a government's role in industrial development can be seen from the structure of the investment operation.

In India during the First Five-year Plan, investments were equally divided among private and public enterprises. In the Second Plan, 1956-61, investments have been set at 6,750 crores-rupees, of which public investments were 3,650 crores-rupees and private were 3,100 crores-rupees. The Third Five-year Plan forsees an overall investment of 10,200 crores-rupees, of which public investments will be 6,200 and private will be 4,000 crores-rupees.

([Note:] Information taken from the article "India revisited," The Economist, 28 January 1961.)

In Africa, public investments are about half of the total investment figure. However, public investments in Africa are put, in most cases, into the so-called "infrastructure:" roads, the building industry, and public works. This differs with Asia, where public investments usually are used in key industries, such as mining, power, and metallurgy.

([Note:] See: UN Department of Economic and Social Affairs, Economic Survey of Africa Since 1950, New York, 1959, page 190, Tables 3-4.)

In the case of Latin America, we can use Mexico as an example. This country is very often pointed to as an example of the success of private initiative. In 1939 all investments in the public field represented 38% of overall investment. During the war this percentage diminished to 33%. In 1950 it increased to 45%. In the course of the last decade, the percentage decreased again.

([Note:] Data given according to IBRD, The Economic Development of Mexico, John Hopkins University Press, Baltimore, 1953, page 13).

The following table can give us an idea of the role public investment plays in different underdeveloped countries.

([Note:] UN Department of Economic and Social Affairs, World Economic Survey, 1959, page 83.)

Percentage of Public Investments in Overall
Investments of Underdeveloped Countries

| Country | 1950-1951 | 1957-1958 |
| --- | --- | --- |
| Burma | 29 | 49 |
| India | 31 | 50 |
| Cuba | 13 | 31 |
| Ghana | 42 | 41 |
| Congo (Leopoldville) | 35 | 43 |
| Rhodesia and Nyasaland | 35 | 41 |
| Philippines | 36 | 25 |
| Equador | 31 | 36 |
| Thailand | 36 | 32 |
| Peru | 14 | 20 |
| Mexico | 40 | 25 |
| Bolivia | 15 | 45 |
| Ceylon | 47 | 53 |
| Chile | 24 | 31 |
| Brazil | 23 | 34 |
| Argentina | 59 | 32 |
| UAR (Egypt) | 19 | 58 |

We can say that, in general, public investments in underdeveloped countries, at the end of last decade, reached from 1/3 to 1/2 of overall investments. We can also state that public investments grew faster than private.

However, the volume or the sum of the investments do not define their character. The character of these investments varies in different countries. In some underdeveloped countries (for instance Ghana, Nigeria, Malaya), the government takes over the task of building the so-called social and economic infrastructure (roads, railroads, schools, hospitals, irrigation, and power stations), all of which must creat favorable conditions for placement of private capital. In other countries, such as India, Pakistan, Burma, and Indonesia, the government is very active in the field of production; it even creates laws by which it controls certain kinds of natural resources. There is also a third kind of underdeveloped country (such as Brazil, Mexico, and Argentina): the government plays the role of a catalytic agent for private enterprises. It acts as a mediator, whose main object is to see that private firms are "helped to their feet."

([Note:] Mexico is a good example of this role; in 1950 28.5% of gross private investment has been finances from government loans; in 1957 it was 23.4%. At the same time, Ghana had financed only 0.2% and 1.5%. The same took place in other countries of Asia and Africa. See: UN Department of Economic and Social Affairs, World Economic Survey, 1959, New York, 1960, page 89.)

The character of a government's investing activity depends very much on who is holding the power in the country. However, when we observe all

underdeveloped countries as a whole, we can say that the role of government in industry is greater in those countries where the existing government is progressive.

Industrial planning is a very important part in speeding up the industrial development of an underdeveloped country. Most underdeveloped countries use a planning system for several years in advance. The character of these plans is again very diverse.

In Asian countries industrial plans present a mixture of determination and financial directing. India is now in the process of finishing its Second Five-year Plan and is ready to start on its third. Last year Indonesia finished its First Five-year Plan. Burma has finished its Four-year Plan, and Pakistan its Five-year Plan. A number of Asian countries have a partial plan. For instance, Iraq has a plan which involves only the public section of industry. This plan is primarly directed at irrigation. The UAR has a plan for industrialization which expires this year (1957-1961). Iran and Malaya have plans whose object is the development of agriculture.

Of all African countries, only Ghana has an extensive plan (1959-1964), which is directed at the building of infrastructure and involves primarly public investments. The Congo, in the course of the last ten colonial years, had a program for public investment.

Latin-American countries, as a rule, do not have any complete plans for industrial development. The economic council of the UN Latin America has done an enormous amount of work to prepare the groundworks for industrial planning.

(/Note:/ United Nations, Department of Economic and Social Affairs: Analysis and Projections of Economic Development, programs and projects for seven Latin-American countries.)

Argentina has a program for the development of its oil industry. Bolivia has a plan for its agriculture. Brazil has a plan for the development of transportation all infrastructure in general, as well as plans for developing oil in the region of Petrobras. Chile has a plan for the development of its agriculture and substitutions for import. Mexico and Peru have plans similar to the above plans. Venezuela has a program for investing profits from oil into national industry and agriculture.

(/Note:/ United Nations, Department of Economic and Social Affairs, World Economic Survey, 1959, New York, 1960, pages 81-82.)

This planning shows that only public industries can be relyed upon. As far as the private sector of the industry is concerned, its role in the program is only a project. A difference can be seen between countries which simply complement the private sector and the countries which are taking definite steps in replacing private activity with direct government action. This is accomplished either by direct nationalization, government investments, or by direct control.

## Part Three

Further developments of state-owned industry has brought about an acute situation between the public and private sectors of the economy. Because this private sector was, in most cases, represented by what was left over from the colonial rule, it became actually a conflict with international private investors.

Immediately after the war, this attitude was represented in the Havana Conference on Trade and Employment. The problem was expressed in article 12 of the proposed Trade Regulation.

(/ Note: / Conference of UN on Trade and Employment, Final Acts and Connected Documents, Havana, March 1948, page 9.)

This resistance became even more pronounced in the Subcommittee for Economic Development of the UN. It has stated in its report dated December 1947:

> This subcommittee has established that the foreign investor, as a rule, was more interested in profits than in the scientific preservation and use of resources in the land in which he has invested his capital. This is a danger, and this subcommittee finds it necessary to warn against it. Experience has further proven that direct private investment is usually followed by political and economic interference in the affairs of underdeveloped countries. Because of this, the subcommittee agrees that experience shows that private or state credits and loans are welcome in any underdeveloped country, but not direct investment. This is because direct investment may mean influence on the economic and political affairs of that country. (/ Note: / Report of the Subcommission for Economic Development of the Economic and Employment Commission, E/CN 1/47.)

The chairman of the subcommission, V. K. R. V. Rao, an Indian economist proposed the creation of an agency in the UN for economic development (UNEDA) because, as he said:

> . . . it is very difficult to separate interstate loans and gifts from political aims and conditions. It does not matter if those conditions are good or bad. The International Bank must do its business strictly as a bank. It is also very doubtful that the need for economic development and the nature of this development can meet the strict requirements of this bank.

In conclusion, he . . . does not believe that the further economic growth of the world can in any significant way be speeded up by private capital and in harmony with principles of the UN. (/ Note: / V. K. R. V. Rao, during the sixteenth session of the Subcommission 30 March 1949).

This conflict with international capital was not limited to mere words. Many underdeveloped countries had to nationalize private capital in order to counteract the resistance of private capital to their policy of industrial development. The weapons of capitalist circles were the

boycott (just as they used on Mexico ten years earlier) and later the open threat of force and subversion.

(/Note:_7 The threat which Churchill used against Iran does not differ from that used by Palmerston one-hundred years ago. Palmerston, in one of his diplomatic notes, wrote: The patience and suffering of His Majesty's Government have reached their limit; if the sums which you owe to British creditors are not paid in time, . . . The Admiral of His Majesty, who is in command in West India, will receive orders to take steps which he may deem to be necessary in the interests of justice . . . RIIA, The Problem of International Investment, Oxford University Press, London, 1937, page 99.)

This situation alarmed the underdeveloped countries, which on 21 December 1952 passed the famous resolution on "Rights to the Free Usage of Natural Wealth and Natural Resources." This resolution, among other things, states:

> We remind all concerned that all nations have the right to use and exploit their own natural wealth and resources as the inalienable right of every independent and sovereign state, and also in agreement with aims and principles of the Charter of the UN.

The resolution further states that it recommends to all countries who are members of the UN not to take any direct or indirect steps which would be contrary to the rights of any country over its natural resources. (/Note:_7 Resolution adopted by the General Assembly at its Seventh Session, 626/VII. UN Document A/2361.)

Private capital, however, soon began its counter-move. In this counter-move the International Trade Association was especially active. It acted actually as an official representative of international private capital.

(/Note:_7 The International Trade Association did not only show its activity in the field of practical action; it also waged a theoretical war with representatives of underdeveloped nations. In 1947 it published a brochure, a study under the title "Foreign Investment for Foreign Expansion," Brochure 107. In brochure 129 (1949,) they published "Fair Treatment for Foreign Investments." This last brochure is a critique on the ideas of underdeveloped nations which, it is claimed, have taken deep roots in the UN. Later, because of certain disagreemtns among representatives of underdeveloped nations, they have changed their point of view, adopting a compromise stand. This later view is expressed in study done by Micel A. Heilperin, "Economic Development and Private Enterprise," Brochure 165, and later one by Professor Peter Kvina, "Public and Private Investment in Economic Development," Brochure 179. In both of these brochures it is stated and supported that both private and government investment are necessary and that there must be a line drawn between them to stop all competition.)

The increase of activities on the part of capitalist circles made it apparent that the difference between their interests and those of underdeveloped countries, as far as economic development is concerned, are indeed great. Capitalists, in their roundabout way, have tried to exert pressure upon these countries in order to revive their industry. Such a revival would mean a general retreat on the front of economic development and growth.

In this period the US appears as the leading investor. However, it was not until the end of the fifties that American investments grew in any sizeable amount. The bulk of those investments was in the oil and mining industries.

(/Note:_7 US Department of Commerce, Foreign Investments of the United States, US Government Printing Office, Washington, 1953. Pages 6 and 8 show that direct American investments in 1929 were $3,959 million; they grew by 1950 to $6,132 million, which is $2,173 million increase.)

In the course of last decade, direct American investments showed progress; US investments in underdeveloped countries grew considerably.

(/Note:_7 In 1959 American direct investments were: in Latin America, $8.2 billion; in the Middle East, $1.2 billion; and in European overseas territories, $1.9 billion. This means that toal investments in underdeveloped countries amounted to $11.3 billion. This figure is almost double the figure for 1950. See Samuel Pizer and Frederick Cutler, "United States Foreign Investments: Measures of Growth and Economic Effects, "Survey of Current Business, Sept, 1960, page 20. For past years, see K. P. Dalal, "Direct Investment in Underdeveloped Countries," Indian Economic Review, Feb 1950, page 54).

At the same time, the old classical rule of the 19th century remained unchanged: new investments do not give as much profit as do old ones. From 1946-53, the overall export figure for American capital into underdeveloped countries amounted to $4.6 billion, while at the same time profits from these investments amounted to $6.5 billion. This means that exports were $1.7 billion less than imports.

(/Note:_7 K. P. Dalal, in his above-mentioned article, states: "This rule was proven in the case of Latin America. The proof itself is stated by the Economic Commission of the UN for Latin America. During the four years after 1950, the overall sum of American private and government investments in Latin America amounted to $2,446 million, while at the same time the overall profit amounted to $2,882 million; this is $436 million more than the new investments. ECLA, International Cooperation in a Latin American Development Policy, New York 1954, pages 16 and 17.)

The table below shows that the same tendency is still present:

Export of capital and import of profits from American
direct investments in foreign lands

(/Note:_7 Data taken from US Department of Commerce, "Survey of Current Business," August 1959, page 32; and Sept 1960, page 20-21).

| Year | Overall sum (in billion $) | Net value of export capital (in billion $) | Undivided profits | Realized profits | Import of profits in US (in billion $) |
|---|---|---|---|---|---|
| 1950 | 11.8 | 1.3 | 0.5 | 1.8 | 1.3 |
| 1957 | 25.3 | 2.5 | 1.4 | 3.6 | 2.2 |
| 1958 | 27.3 | 1.2 | 0.9 | 3.0 | 2.1 |
| 1959 | 29.7 | 1.4 | 1.1 | 3.3 | 2.2 |

However, this growth of foreign private capital in-flow in underdeveloped countries did not come about in a natural way. It took place not by "natural laws" of capital movement, but mostly because of intervention on the part of the government as means to ease the export of capital. In 1948 the US passed the Economic Cooperation Act, which provides for a separate fund to compensate private investors in case of loss of their investments as result of nationalization or any other noneconomic reason. At the same time the government concluded several bilateral agreements in order to ease the placement of capital. It is easy to see that, because this agency also controlled economic and military aid, it usually in these agreements provided a clause for accepting such aid. This way private investors were given government protection. Capitalist investments have reached their prosperity under the shield of government.

Private capital, as one of its counter-moves, demanded from underdeveloped countries the creation of a good "climate" for investment. This demand was voiced also in the UN. The Ninth General Assembly of the UN on 11 December 1954 passed a resolution which all but contradicted the resolution passed by the Seventh General Assembly which declared the right of a country to nationalize foreign firms on its soil. In this new resolution underdeveloped countries were specifically urged to:

Wherever possible change or adjust their internal policies and administrative practices in order to create a good climate for investing capital; try not to discriminate toward foreign investors; to ease the import of capital goods, machinery, and elements necessary for investment; to make the necessary facilitations in the payments of salaries and repatriation of capital.

([Note:] Resolutions adopted by the General Assembly during its Ninth Session, A/2890, Resolution 824/IX, page 12.)

The creation of this so-called "climate" was actually an abandonment of a firm industrial policy of economic growth.

([Note:] A sizeable amount was written on the subject of investment conditions and about the export of capital. For the point of view of the American government, see US Department of Commerce, Factors Limiting US Investment Abroad, Washington, 1954. Important UN studies are: "The International flow of Private Capital, 1956-1958," Sales No 59.II.D.2, and also "The Promotion of the International Flow of Private Capital," E/3325, and "The International Flow of Private Capital, 1958-1959, E/3369,

The Fiscal Committee has made several studies on the subject of tax-cuts which were recommended to underdeveloped nations as means of inviting private capital.)

Experience has shown that foreign investors hold the opinion that one of the main obstacles to good investment conditions is the taxation of profits and private receipts. Other obstacles are the limitations imposed by the government of that country on the export of profits beyond its borders. According to capitalists-investors, a state should overtax its citizens in order to build roads, railraods, seaports, power stations, water lines, etc. -- all this just to make the productive investment possible. Such investment is to be sure to bring to investors big profits. An economy functions as a whole even if some fields do not bring as much profit as they give out. Profits are usually created in the so-called productive fields of industry: plantations, mines, phosphate plants, cotton mills, natural oils, etc. At the same time, railroads, highways, hospitals, and schools bring only negligable profit. However, this infrastructure is necessary; without it, industrial progress is all but impossible. At the same time, according to the laws of the market, it brings little or no profit. Foreign capital wants to be placed only at those points which insure high profits. They want to take as their own profits the profits which are actually the product of the whole system of this nation's economy. Any pressure upon a government of an underdeveloped country to change its industrial policies in order to create an atmosphere for investment would actually be against national economic growth. It is true that for following such a policy many countries have received aid and loans, but it is doubtful whether they were big enough to compensate for all the harm done to these countries as a result of their consent to these policies.

([Note:] The following countries have signed agreements with the US guaranteeing the safety of private investments: Uruguay (1949), Columbia (1951), and (1953) China, Ethiopia, and Israel. Today, thirty countries have signed similar agreements. Experience has shown that because the funds have remained practically intact, all this was just an excuse to exert pressure on underdeveloped countries in order to create an "open door" for private capital.)

## Part Four

The struggle of two opposing economic trends has had its repercussions on the flow of international aid to underdeveloped countries.

The approach to this problem as such has been changed many times since World War II. The agreement creating UNRRA, which was signed 9 November 1943 in Washington, had as its primary aim to help the industrial readjustment in the US and to restore the European economy in order to check the social unrests which were growing at that time. At that time underdeveloped countries were not considered as separate entities.

Even in April 1948, when Congress of the US passed the so-called Marshall Plan (which started again multilateral international aid programs), underdeveloped countries were not considered.

So, while highly industrialized Europe received gifts without any obligation to repay them, underdeveloped countries could hope only for loans to aid to their economies.

([Note:] This position of industrial countries has been criticized by famous economist Alvin H. Hansen in his latest book, Economic Issues of the 1960's, Economic Handbook Series, McGraw Hill, New York 1960, pages 127-128.

Even when any aid was given to underdeveloped countries, it was mainly bilateral; industrial countries resisted any attempt to make these aid agreements multilateral or to place them under the UN. Undersecretary of the UN for Economic Affairs, Filip de Sejnes, correctly said regarding this question (XV General Assembly):

Perhaps in the beginning the credit-giving nations were enthusiastic about their aid-programs because they thought that international help to underdeveloped countries was something of a temporary nature, something that will soon give way to the old, traditional ways of aid. However, it seems now that it is here to stay and that it enters into economic calculations not only of receiving countries, but also of those giving that aid.

([Note:] De Sejes in the Economic and Financing Committee at the opening of discussions on the economic development of underdeveloped countries. A/c.2/1/458.)

Even at the time of the formation of the International Bank the founders had the idea that this bank should help underdeveloped countries only in case private capital is not invested. Thus in the very beginning any competion between the International Bank and private capital was ruled out. The Bank was under obligation to refuse to negotiate with any country which has not been able or willing to dischare its international debts. The Bank in some way became the collecting agent for international capital.

Very soon, however, it became clear that the Bank did nothing to create any new possibilities for placing private capital. At the same time, the pressure on the part of underdeveloped countries grew stronger. Under this pressure and because of military and political reasons, industrial countries began their bilateral programs of aid to underdeveloped countries.

However, when in 1954 the USSR began giving aid to a selected number of underdeveloped countries, the situation began to change. The West saw its weak points: they understood that aid cannot be limited to military aid; they understood that aid must be given for a longer period of time; they also understood the necessity of concluding multilateral if not universal aid-agreements. Because of this, the Bank has received two more agencies: the International Finance Corporation, whose object is to enter into agreements with private investors, and the International

Corporation for Economic Development, whose object is to finance projects which under present conditions cannot be otherwise financed.

The volume of aid given to underdeveloped countries has been constantly growing in the past few years. It grew at the rate of 15% per year in the last six years, and has reached yearly total of about $4 billion. However, even with such a growth of aid it is not sufficient to compensate underdeveloped countries for their losses due to price reductions on raw materials.

Many liberal thinkers of the West thought that one problem is the tie between international aid and the creation of "good conditions" for private investment. In searching for the solution to the problem, they went as far as to demand that all ties between international aid and private capital be abandoned. The director of the American Center for International Research, Max F. Millikan and his deputy (presently one of the advisors to the President), W. W. Rostow, went as far as to say:

> We believe that we will advance attachment to private initiative if we do not insist on any specific economic philosophy as a condition to giving aid. Instead, we should tie our aid to one and only one condition: respect for private enterprise.

(/Note:/ Max F. Millikan and W. W. Rostow, A Proposal: Key to an Effective Foreign Policy, Harper and Brothers, New York 1957, page 14.)

It is apparent that even these progressive thinkers of the West could not abandon their belief in private enterprise. This belief lead them later to renounce their former stand. After analyzing the success of private industry in India during their first five-year plan, Millikan and Rostow came to the conclusion that private enterprise is efficiently superior to public enterprise, even in underdeveloped countries. (/Note:/ M. F. Millikan and W. W. Rostow, Foreign Aid: Next Phase, Foreign Affairs, April 1958, page 423.)

A later analysis of Indian experience proved quite to the contrary. Great investments on the part of government in public industries created new demands which had to be satisfied by the private sector of the economy. This made it look as if private enterprise was gaining in the first two years of Second Five-year Plan. Capitalists at once began to satisfy these demands by importing heavily from abroad. Because of this, the figure for imports in first two years has reached the ceiling proposed for the whole five-year plan. It defies all expalinations why government did not interfere and prohibit this heavy importing. As a result, the government could not sell its bonds or collect taxes, and thus could not raise the money to support its economic projects. Salaries showed a deficit, and the goals for which the government aimed were not achieved. This "breakthrough" and "golden age" of Indian private capital resulted in, as it was to be expected, an allocation of resources and the pressure of inflation. It is clear that there is nothing in this for other underdeveloped countries to profit by, just as there is no resulting change in philosophy regarding foreign aid.

([Note:] See a basically identical analysis of the Indian experience in Edward S. Mason's Economic Planning in Underdeveloped Areas: Government and Business, Fordham University Press, New York, 1958, pages 76-77.)

Moreover, what happened to India was a good lesson not only to India itself, but also to other underdeveloped countries. A prosperity which is based on growing demands created by a broad investment program on the part of government results in a tendency for the private sector to grab for itself the accumulation of additional value and to orient the national economy to the satisfaction of temporary needs instead of long-term objectives. India stopped this tendency during the Second Five-year Plan; because of this, it has recorded in its Seven-year Plan (1950-57) a 22% growth of public investments, while private investments grew only 7%. This made it possible for India to increase its national revenue 40% and its industrial output 50% in last decade. It also increased its steel output from 1.4 to 3 million tons, while investments grew from 5% to 14%. ([Note:] Data according to an article by Thomas Baloga, "India's Plan for Survival," New Statesman and Nation, 24 February 1961.)

Underdeveloped countries must, out of their present "mixed economy" system, develop a system which is best suited for their specific needs and their traditions, as well as their modern means. This system must depend mainly on their own means. Colonialism was a try, and an unsuccessful one at that, to turn these countries into capitalist nations by way of commerce and investment. Because of this, capitalism remained a foreign body in the whole system of that nation's economy. The export of capital was one of the means by which whole economic system of that colony was tied to world market. Colonialism as a system is today defeated, at least from political standpoint.

([Note:] Out of the 82 million square km of land and 960 million people which lived under colonial or semi-colonial rule in 1914, today 13 million square km (less than 10% of total land-mass), and 83 million people (only 3% of all people in the world remain under colonialism.)

But its tendencies are not yet defeated. Old colonial tendencies appear now under new names in many programs for international aid to underdeveloped countries. Just as the prime object of exporting capital was to tie the colonial industry to the mother-country, and just as returns from this capital were not always taken in forms of rents and dividends so today some bilateral aid agreements are aimed at insuring to the creditor-country some other gains besides profits from industry. This concerns mostly aid agreements aimed at supporting private enterprises.

([Note:] This point is clearly explained and illustrated by American bilateral agreements "on aid" with the Federation of Rhodezia and Nyasaland. See the English author William J. Barber in his article "Dollar Investment in Central Africa," New Commonwealth, April 1956. In this article he states that overall American investments in this Federation were, according to the Statistical Department, of Africa, 35 million pounds sterling in 1954. These private investments have been placed primarily in copper mines, manganite, chrome, cobalt, and asbestos. About

bilateral aid, he states: "Even if the American government supports different fields of activities, it is also interested in the exporting of minerals by the federal economy." Further, he continues: "The increase of these services certainly benefits territories in general. However, the main object of creditors is to help increase the capacity and efficiency of mineral exports.)

Such aid cannot be regarded as serious aid to a national economy, but just as a way of insuring and keeping the exporting characteristics of these nations' industries.

Not only international aid has remnants of the past in itself; so does foreign aid which concentrates on big projects and forgets about small ones, without which the big projects cannot operate. The British economist Thomas Balog criticized this method of international aid. He rightly stated that:

> If international aid really wants to be useful, it must not tie itself to certain projects only. This practice had a negative effect by opening new factories and building projects, while the old ones suffered from manpower shortages and shortages of essential foreign material for which there was no credit available. ([Note:] Thomas Balogh, page 290)

However, this problem is not the only one. Concentration on certain objects does not permit industry to integrate, as it should in order to insure industrial progress. We showed before that one of the reasons for industrial stagnation in the colonial period was not because mines or factories were not built, but because the system had not become a part of the nation. For this reason it always lived a separate life from domestic industry.

To attain industrial success, an underdeveloped country must create its own integrated program for industrial development. This program must be absolutely independent as far as the distribution of investments is concerned. These investments must be distributed according to industrial priority. For this reason, it is necessary to have the support of the nation as a whole.

([Note:] American aid to Chiang Kai-shek is the best proof available that enormous foreign aid does not attain the desired results, but to the contrary creates corruption, which only speeds up economic and social collapse. This, however, happens only when this aid is not given to those social forces of the country which are interested in the industrial progress of their land.)

Foreign economic and technical aid can be helpful, but it alone cannot suffice. If international aid is really interested in helping underdeveloped countries (and not in protecting the primary interests of some great power or foreign industries), it must be given to those countries for their distribution and use. This also means that foreign aid in a "mixed economy" system cannot be used a weapon of one economic system against the other. Industrial growth means at the same time certain

changes in class-relations. Underdeveloped countries will find their own way to economic and social progress without any foreign political or economic intervention. The short post-war experiences have shown us the direction which these countries tend to move as soon as they are liberated from collapsing colonialism in the age of accelerated industrial development.

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